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P 142217Z JUN 74

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E.O. 11652: N/A

TAGS: EFIN; EAID; IN

SUBJECT: INDIAN CONSORTIUM - DEBT RESCHEDULING

1. SUMMARY: MEETING OF INDIA CONSORTIUM JUNE 13-14

FAILED REACH FULL AGREEMENT BANK PROPOSAL RESCHEDULE 45

PERCENT INDIAN DEBT SERVICE DUE THIS YEAR. OF 13

CREDITORS, ALL BUT CANADA, FRANCE, ITALY AND U.S. EX-

RESSED WILLINGNESS AGREE TO 45 PERCENT RESCHEDULING.

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CANADIAN DEFERRAL OF POSITION, KNOWN IN ADVANCE, HAD NO

ADVERSE IMPACT AS GROUP INFERRED CANADA WOULD AGREE SOMEWHAT LATER. FRANCE SUPPORTIVE BUT PREFERRED 40 PERCENT SAYING, HOWEVER, WOULD ACCEPT 45 PERCENT IF ALL OTHERS DID. ITALY UNCERTAIN BUT PROMISED BEST EFFORT REACH TARGET. U.S. INABILITY COMPLY WITH BANK DREW EXPRESSIONS OF DISAPPOINTMENT FROM MOST DONORS OF VARYING INTENSITY. JAPAN SAID PRESENT POSITION PRECLUDED PARTICIPATION UNLESS U.S. ACCEPTED FULL SHARE. OTHER DONORS (FRANCE, U.K., GERMANY AND SWEDEN PROMINENTLY) URGED U.S. RECONSIDER AND SEVERAL NOTED INCONSISTENCY OF U.S. POSITION WITH THAT TAKEN ON PAKISTAN RESCHEDULING. BANK REQUESTED ALL MEMBERS REFLECT ON EVENTS AND ADVISE IT OF THEIR INTENTIONS AT EARLIEST OPPORTUNITY.

TRADITIONAL ARGUMENT OVER "INDEX OF HARDNESS" SURFACED EARLY BUT THIS TIME MODERATELY AND ENDED WITH CONSENSUS EMERGING AMONG MOST FORMER SOFT DONORS, EXCLUDING THE U.S., TO AGREE TO PROPORTIONAL SHARING IF ALL DONORS AGREE ACCEPT BANK RECOMMENDATION NEW AID CONTAIN 62 PERCENT GRANT ELEMENT. U.S. ONLY CREDITOR TO RAISE MFN ISSUE. BANK COUNTERED THAT "RESOURCE TRANSFER" MOST EFFECTIVE WAY OF ASSURING COMPARABLE EAST BLOC RELIEF AND SUGGESTED INCLUDING STATEMENT IN ANY DEBT RELIEF AGREEMENT THE PROVISIO THAT INDIA WOULD AIM FOR A NET TRANSFER FROM THESE COUNTRIES OF AT LEAST \$200 MILLION. OTHER CREDITORS, ACQUIESCING IN BANK STATEMENT, MADE NO COMMENT ON U.S. SUGGESTION. END SUMMARY.

2. QUESTION DEBT RELIEF RAISED BY VARIOUS PARTIES AT DIFFERENT SESSIONS OF INDIA CONSORTIUM, PARTICULARLY IN "CLOSED" (I.E., NOT ATTENDED BY INDIA) MEETING OF CONSORTIUM DELEGATES ON MORNING JUNE 14 AND IN FORMAL PLEDGING SESSION SAME AFTERNOON. BANK STATEMENT RECOMMENDED CONSORTIUM PROVIDE DEBT RELIEF IN 1974/75 EQUAL TO 45 PERCENT OF INDIA'S TOTAL DEBT SERVICE OBLIGATIONS TO THE CONCERNED COUNTRY, INCLUDING PUBLICLY GUARANTEED PRIVATE DEBTS WITH TERMS OF ROLLOVER TO BE EQUIVALENT TO NO LESS THAN 62 PERCENT GRANT ELEMENT. BANK ALSO SUGGESTED THAT NEW AID, AT LEAST EQUIVALENT 10 PERCENT OF DEBT SERVICE, BE "UNTIED."

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3. U.S. STATEMENT: STATEMENT PRESENTED NEAR END OF "CLOSED" SESSION, REAFFIRMED EARLIER U.S. POSITION RECOGNIZING INDIA'S NEED FOR QUICK-DISBURSING AID. U.S. DEL NOTED USG WAS SEEKING \$75 MILLION FOR POSSIBLE NEW ASSISTANCE TO INDIA THIS FISCAL YEAR, ALTHOUGH FINAL APPROPRIATION LEVEL UNCERTAIN, PROVIDING AGREEMENT ON BILATERAL ASSISTANCE REACHED BETWEEN U.S. AND INDIA. ADDED WE NOTED ELEMENTS OF PROGRESS IN EVOLVING INDO-US

ECONOMIC RELATIONSHIP, FOR EXAMPLE, SETTLEMENT REGARDING
U.S. HOLDINGS OF INDIAN RUPEES. U.S. DEL NOT ABLE SAY
HOW FAST DISBURSING ANY POSSIBLE NEW AID WOULD BE SINCE
EMPHASIS (PER NEW STATUTORY CRITERIA) WOULD BE PROJECT
NOT PROGRAM-TYPE LENDING UNLESS FERTILIZER SUPPLY EASED.
ADDED AT INDIA'S INITIATIVE PL-480 FOOD PROGRAM (TITLE I)
DISCONTINUED TWO YEARS AGO AND NO REQUEST HAS BEEN MADE
TO REINSTATE PROGRAM; THERE IS PRESENTLY NO FIGURE FOR
SUCH AID IN U.S. BUDGET. NEVERTHELESS, WE HAVE CON-
TINUED TO MAKE AVAILABLE TITLE II FOOD AID TO INDIA ON
A GRANT BASIS AND THE VALUE OF THIS LATTER PROGRAM HAS
BEEN ABOUT \$50 MILLION ANNUALLY IN RECENT YEARS. WITH
RESPECT TO DEBT RESCHEDULING, U.S. DEL PREFACED COMMENT
WITH REFERENCE TO EARLIER U.K. REMARK THAT CONSORTIUM

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P 142217Z JUN 74

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MEMBERS NEED MOVE ALONG AT SAME SPEED (REFERRING TO TERMS OF AID RPT AID) "IN FASHION OF SHIP CONVOY," AND SAID WE WISHED BE ASSOCIATED WITH THAT POSITION.

U.S. DEL CONTINUED THAT BANK PROPOSAL ON DEBT GAVE USG DIFFICULTY. U.S. DISAPPOINTED BANK PROPOSED GIVING UP "INDEX OF HARDNESS." THUS, U.S. RESPONSIBLE FOR 60 PERCENT OF INCREMENTAL AMOUNT OF THIS YEAR'S PROPOSED LIMITED OFFICIAL USE

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LEVEL OVER LAST YEAR'S. U.S. DISAPPOINTED PROPOSED RESCHEDULING DID NOT INCLUDE MFN CLAUSE WITH RESPECT TO NON-CONSORTIUM

DEBT. INDIA CLEARLY NEEDED INCREASED AID TO COVER ITS INCREASED IMPORT BILL, BUT SOME TWBG DIZAW#OTHER LDC'S FACED SIMILAR PROBLEM. WILL THERE, U.S. ASKED, BE SUFFICIENT AID FUNDS AVAILABLE TO COVER URGENT AID NEEDS OF SUCH NATIONS IF WE FOLLOWED BANK'S PROPOSAL? ADDED U.S. WISHED ENCOURAGE INDIA ALSO TO SEEK SUPPORT FROM MAJOR OIL EXPORTING NATIONS; ALSO INVITED IMF REPRESENTATIVE (AT MEETING) TO COMMENT ON CONDITIONS OF HAVING INDIA MAKE FURTHER DRAWING ON FUND.

CONCLUDING, U.S. DEL SAID U.S. UNCERTAIN AS TO JUSTIFICATION FOR BANK'S PROPOSED COURSE OF ACTION GIVEN UNKNOWNNS AND NEEDS OF OTHERS, AND SO DETERMINED TO BE CONSERVATIVE. AT THIS TIME, THEREFORE, U.S. PREPARED COMMIT SAME AMOUNT DEBT RESCHEDULING AS LAST YEAR, NAMELY \$29 MILLION, BUT WITH INTENTION REVIEW INDIAN FINANCIAL SITUATION LATER TO DETERMINE WHETHER TO DO MORE.

4. REACTION TO U.S. STATEMENT:

RESPONDING, IBRD CHAIRMAN ASKED IF U.S. SEEKS TO RESCHEDULE ONLY \$29 MILLION PLUS A PROVISIO OCEQUITABLE# TERMS OF OTHER NATIONS' PORTION? ILE ASKED WOULD THIS HAVE EFFECT OF FORCING OTHERS TO REDUCE PLEDGES ON RESCHEDULING? UOWS.#DEL RESPONDED BY EMPHASIZING U.S. WISHED AVOID DISRUPTING GROUP ACTION WHICH WOULD BE BENEFICIAL TO INDIA. THE CHAIRMAN RESPONDED THAT HE UNDERSTOOD THIS AND WAS RELIEVED.

THE FRENCH DELEGATE SAID HE WAS EXTREMELY DIS-

APPOINTED BY U.S. STATEMENT. WHILE FRANCE BELIEVED THAT PROPOSED DIRECT AID LEVEL TO BE TOO LOW AND WHILE IT ALSO WAS NOT ANXIOUS TO PROMOTE DEBT RELIEF, IT HAD PLANNED TO ACCEDE IN PRINCIPLE TO BANK'S 45 PERCENT DEBT RELIEF RECOMMENDATION IN FRAMEWORK OF CONSORTIUM CONSENSUS. BUT, HE NOTED, A QUICK CALCULATION SHOWED U.S. DEBT RESCHEDULING LEVEL WOULD BE ONLY 20 PERCENT OF THIS YEAR'S INDEBTEDNESS. HE SAID HE WAS STRUCK BY DIFFERENCE BETWEEN ATTITUDE ON PAKISTAN RESCHEDULING, LIMITED OFFICIAL USE

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WHERE A POSSIBLE SHORTFALL OF A FEW MILLION DOLLARS WAS DISCUSSED ONLY TWO DAYS EARLIER AS INTOLERABLE, AND THE INDIAN CASE WHERE THE GAP BETWEEN THE COUNTRY'S NEEDS AND THE PROPOSED AID LEVEL IS A VIRTUAL "CHASM." THE FRENCH DEL CONCLUDED HIS GOVERNMENT HAS FRIENDLY RELATIONS WITH BOTH PAKISTAN AND INDIA. GERMAN AND U.K. DELEGATES, WHILE NOTING THEIR APPRECIATION OF U.S. DIFFICULTIES, WERE DISCOURAGED AT U.S. POSITION AND URGED U.S. RECONSIDER.

5. OTHER CREDITOR POSITION ON BANK PROPOSAL: OF 13 CREDITORS, ALL BUT CANADA, FRANCE, ITALY AND U.S. EXPRESSED WILLINGNESS AGREE 45 PERCENT RESCHEDULING. CANADIAN DEFERRAL OF POSITION, KNOWN IN ADVANCE, HAD NO ADVERSE IMPACT, AS GROUP INFERRED CANADA WOULD AGREE SOMEWHAT LATER. FRANCE SUPPORTED 40 PERCENT RESCHEDULING BUT STATED IT WOULD HAVE NO DIFFICULTY ACCEPTING 45 PERCENT CONSENSUS. ITALIAN DELEGATE NOT IN A POSITION QUANTIFY AMOUNT OR TERMS OF RELIEF BUT PROMISED BEST EFFORT REACH TARGET. AFTER U.S. POSITION ANNOUNCED, JAPAN NOTED IT COULD AGREE 45 PERCENT RESCHEDULING IF ALL MAJOR DONORS "PRECISELY GO ALONG." WHEN QUESTIONED, JAPAN DELEGATE STATED THAT UNDER HIS CURRENT INSTRUCTIONS, U.S. SHARE AT \$29 MILLION WOULD PRECLUDE JAPANESE PARTICIPATION.

6. INDEX OF HARDNESS: U.K., NETHERLANDS, AND SWEDEN EQUIVOCALLY, SUPPORTED "INDEX OF HARDNESS" IN ATTRIBUTING RMSHARES, WITH U.K. LINKING SUCH INDEX WITH U.K. ACCEPTANCE 45 PERCENT RELIEF. CANADA ALSO NOTED INDEX WOULD BE A CONDITION OF ANY FUTURE CANADIAN PARTICIPATION. U.K., CANADA, SWEDEN, AND NETHERLANDS INDICATED THEY WOULD DROP DEMANDS FOR HARDNESS INDEX, IF ALL DONORS WOULD AGREE ACCEPT BANK RECOMMENDATION THAT NEW AID CONTAIN MINIMUM 62 PERCENT GRANT ELDDENT. FRANCE VISTED#URGINGS OF SSBQGT#DONORS TO AGREE THIS 62 PERCENT TARGET.

7. MOST FAVORED NATION CLAUSE: THERE WAS NO CREDITOR

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COMMENT ON US-RAISED MFN ISSUE. THE BANK STATED ITS BELIEF THAT COMPARABLE RELIEF FROM SOVIET BLOC WAS BEST OBTAINED BY ACHIEVING INCREASED TRANSFER OF RESOURCES FROM EAST BLOC TO INDIA. BANK, THEREFORE, PROPOSED INCLUDING IN ANY DEBT RELIEF UNDERSTANDING, THE PROVISIO THAT INDIA WOULD AIM FOR A NET TRANSFER FROM THE TRADITIONAL NON-CONSORTIUM COUNTRIES OF AT LEAST \$200 MILLION LIMITED OFFICIAL USE

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ANNUALLY. BANK ALSO PROPOSED INSERTING INDIAN COMMITMENT TO CONTINUE SEEKING LIBERALIZATION OF RUPEE PAYMENTS AREA AID AND TRADE TO ASSURE THE PROVISION OF COMMODITIES SUITED TO INDIA'S NEED.

8. INDIA'S COMPLIANCE WITH BANK'S RECOMMENDATION: THERE WAS ALSO NO CREDITOR RESPONSE TO U.S. OBSERVATION THAT THERE WAS NO ASSURANCE THE GOI WOULD FOLLOW THE BANK'S PERFORMANCE RECOMMENDATIONS, FINE AS THEY WERE. BANK NOTED DIFFICULTY OF TRANSLATING RECOMMENDATIONS/ADVICE INTO CONTRACTUAL ARRANGEMENTS.

9. BALANCE OF PAYMENTS DATA: SOME DELEGATES, INCLUDING U.S., NOTED DIFFICULTY IN GETTING ACCURATE BALANCE OF PAYMENTS DATA. BANK CONCEDED DIFFICULTY IN FORECASTING EXPORTS/IMPORTS IN ERA OF VOLATILE PRICES, BUT BELIEVED CONSORTIUM SHOULD ACT NOW ON BEST INFORMATION AVAILABLE.

10. WHAT NOW?: ALTHOUGH U.S. REPEATEDLY STRESSED HOPE U.S. POSITION WOULD NOT DETER OTHER CREDITORS FROM DOING THEIR PROPER PART, U.S. STAND--FOLLOWED BY JAPAN'S POSITION THAT IT WOULD NOT PARTICIPATE UNLESS U.S. AGREED TO ACCEPT 45 PERCENT SHARE--STALLED MEETING AND LIMITED FURTHER AGREEMENT. BANK STRESSED NEED TO REASSESS MEMBERS' POSITIONS WITH VIEW REACHING EARLIEST POSSIBLE RELIEF. SEVERAL DONORS DISAPPOINTINGLY CONTRASTED TREATMENT OF INDIA WITH THAT ACCORDED PAKISTAN AND BANGLADESH AT JUNE 12 CONSORTIUM MEETING. BANK WILL SHORTLY CONTACT CREDITOR COUNTRIES TO MORE FULLY ASSESS DONOR POSITIONS.
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